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RUEHDS/AMEMBASSY ADDIS ABABA 1143
RUEHBY/AMEMBASSY CANBERRA 0403
RUEHDK/AMEMBASSY DAKAR 0763
RUEHKM/AMEMBASSY KAMPALA 1197
RUEHNR/AMEMBASSY NAIROBI 3541
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RUEKJCS/JOINT STAFF WASHDC
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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000298

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AF/S FOR B. NEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
AFR/SA FOR E. LOKEN
COMMERCE FOR BECKY ERKUL

E.O. 12958: DECL: 12/31/2011
TAGS: PGOV EMIN ECON EFIN PREL PHUM ZI
SUBJECT: GOZ EYING CONTROL OF MINING SECTOR

REF: A. A HARARE 232

¶B. B HARARE 200
¶C. C HARARE 187
¶D. D 2005 HARARE 1088

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

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Summary

¶1. (C) Minister of Mines Amos Midzi announced on March 3 that Cabinet had approved in principle amendments to the Mines and Minerals Act that would force foreign-owned mining companies to hand over 51 percent of their shares to the GOZ. The GOZ is preparing to present the legislation to Parliament, possibly by the end of the month. Zimplats CEO Greg Sebborn told us the legislation would effectively turn the publicly-traded platinum miner into a government parastatal and vowed to fight the encroachment in the courts. For an economy in which the mining sector provided more than 40 percent of foreign currency revenue last year, this legislation) if passed) would be yet another crippling blow and further evidence of the GOZ's blatant disregard for property rights and sound economic policies. End Summary.

Legalizing Theft

¶2. (U) Minister of Mines Midzi on March 3 announced that the Cabinet had approved in principle amendments to the Mines and Minerals Act that would require foreign mining companies to relinquish 51 percent of their shares (ref C). The GOZ would take a 51 percent share in energy minerals (coal, natural gas, methane, uranium), platinum and diamonds. Twenty five

percent would be non-contributory (i.e. without compensation) and surrendered when the legislation became law, with the remaining shares being transferred over five years. For large gold mines and emerald production, 51 percent of ownership would be split between indigenous companies and the GOZ. For other minerals, the proposal called for 50 percent GOZ shareholding over seven years. In the case of Greenfield projects, 51 percent GOZ participation would be required from inception.

¶3. (U) The proposal would also abolish Special Mining leases and compel the mining sector to add value to a certain to-be-prescribed proportion of product. Furthermore, companies would have to relinquish claims not being worked or developed.

¶4. (C) Israel Chilimanzi, a legislative advisor for USAID's parliamentary support project implemented by the State University of New York (SUNY), told poloff on March 6 that the Ministry would likely present the bill to Parliament by the end of March. (N.B. The House of Assembly is currently adjourned until March 28 and the Senate until April 25.) No timeline is available for the bill's passage, but given the legislature's thin agenda it could be relatively swift.

Platinum Heavyweight Cries Foul

¶5. (C) Zimplats CEO Greg Sebborn told econoff on March 3 that the new legislation would effectively turn Zimplats into a parastatal and termed it a disaster for the local platinum industry. Only a few days before the announcement, Sebborn

had speculated to econoff that Midzi) one of the "underperforming" ministers recently criticized publicly by Mugabe (ref B)) was under intense pressure to come through on the issue of local empowerment. Sebborn told us that Zimplats could accept a 30 percent empowerment ratio but 51 percent with no compensation was a deal-breaker.

¶6. (C) Sebborn said that Zimplats, traded on the Australian Stock Exchange but 86 percent owned by Impala Holdings Limited (Implats) of South Africa, would fight the legislation. Sebborn contended that any forced compensation would violate the 1994 agreement signed between the GOZ and Implats, and would provoke arbitration under Swiss jurisdiction as provided for in the Parliament-approved agreement. Chilimanzi, however, speculated that the draft legislation could contain language saying that it supersedes past agreements in an attempt to limit Zimplats' legal recourse. Sebborn said the company would issue on March 7 a strongly-worded press release condemning the move. (N.B. Originally scheduled for March 8, Embassy noted the IMF meeting on that date and recommended that Sebborn issue the release a day earlier.)

Industry, Market Reaction

¶7. (C) Chamber of Mines President (and senior Zimplats Vice President) Jack Murehwa on March 7 echoed to econoff the legislation's likely disastrous impact on Zimbabwe's mining sector. He noted that the GOZ already had control of one mining corporation, Zimbabwe Mining Development Corporation, which was completely moribund. He asserted that Mugabe himself was behind the legislation and that several key players in the GOZ, including Vice President Mujuru, Vice President Msika, Finance Minister Murerwa, Tourism Minister Nhema, and Mining Minister Midzi himself, were opposed to it. Murehwa said Mujuru and Msika earlier had promised the legislation would be watered down; he didn't know whether they had been overruled or simply had not pushed it. With the most recent announcement, Murehwa said the industry was

not optimistic the legislation could be scaled back meaningfully or derailed altogether. He shared with econoff a copy of the Chamber's official response and comment on the legislation (faxed to AF/S).

¶8. (C) Local economic analyst John Robertson informed econoff on March 7 that, in announcing the decision, Minister Midzi told representatives of mining companies the proposal would sweep away all prior international agreements. Robertson expressed hope that the market reaction would add weight to the efforts underway by the affected companies to prevent what amounts to the nationalization of the industry. If the proposal became law, he predicted that mining would rapidly decline in importance, thousands would lose their jobs, foreign earnings from the sector would collapse and, as with the decline in agriculture, this would cause severe knock-on losses in the manufacturing and service industries.

¶9. (U) Reaction in the thinly-traded Zimbabwe Stock Exchange mining index was negative. Trading was suspended on Monday and at close of Tuesday the index was 8.9 percent off its Friday close. Gold miner Falgold was the biggest loser on Tuesday, down 64 percent in trading, although an analyst recommendation to take profit might have also contributed to the slide.

Comment

¶10. (C) Having crippled the agricultural and tourism sectors with attacks on the private sector and gross disregard for property rights, the GOZ may be poised to do the same thing to the economy's remaining third economic pillar) mining. However, because the measure will only hasten the evaporation of what little remains of the GOZ's desperately needed foreign exchange (not in itself a bad thing as the GOZ digs its hole a little deeper) Reserve Bank Governor Gono and the other "moderates" Murehwa mentioned may try to thwart the plan. That said, ZANU-PF,s widespread venality and its divorce from the national interest will be hard to overcome. Coming only days before the IMF vote to restore voting rights (ref A), the proposed mining amendment further underscores the GOZ,s lack of commitment to the second condition for IMF reengagement) comprehensive policy reform) and its lack of fitness to have its IMF voting rights restored.
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